Supreme Court, U.S.
FILED

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No. 01-

IN THE

Supreme Court of the United States

BIOMET, INC.,

Petitioner,

v.

DR. RAYMOND G. TRONZO,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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July 26, 2001

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

85 pp

QUESTION PRESENTED

Petitioner appealed a judgment of $7.1 million in compensatory damages and $20 million in punitive damages to the United States Court of Appeals for the Federal Circuit. The Federal Circuit vacated the judgment because compensatory damages were awarded on an improper basis. On remand, the district court reduced the compensatory damages to $520, and ruled that the punitive damages were unconstitutional under *BMW of North America, Inc.* v. *Gore*, 517 U.S. 559 (1996). Accordingly, the court then reduced the punitive damages award to $52,000. On appeal, the Federal Circuit held that the district court exceeded the prior appellate mandate by considering the constitutionality of the punitive damages in light of the dramatically reduced amount of compensatory damages, because the petitioner had failed on the first appeal to raise the hypothetical claim that the punitive damages award would be unconstitutional "if the compensatory damages award is lowered." Pet. App. 12a.

Question Presented: Whether the appellate mandate rule forecloses a district court from considering the constitutionality of a punitive damages award that is 38,000 times the new amount of compensatory damages awarded on remand, simply because the defendant did not raise a hypothetical constitutional challenge to the punitive damages award on the prior appeal.

PARTIES AND CORPORATE DISCLOSURE

There are no named parties other than those stated in the caption. Biomet, Inc. has no parent companies, subsidiaries (except wholly owned subsidiaries), or affiliates that have issued shares to the public.

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Petitioner Biomet, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the court of appeals in this matter is reported at 236 F.3d 1342 (Fed. Cir. 2001). Appendix to the Petition for Certiorari ("Pet. App.") 1a-17a. The court of appeals order denying rehearing and rehearing en banc is not reported. Pet. App. 49a. Two unpublished opinions of the district court are included in the appendix. Pet. App. 18a-25a and 26a-32a. The opinion of the court of appeals on the first appeal in this matter is reported at 156 F.3d 1154 (Fed. Cir. 1998). Pet. App. 33a-48a.

JURISDICTION

The judgment of the court of appeals was entered on January 17, 2001, and the order denying rehearing and rehearing en banc was entered on March 28, 2001. On May 23, 2001, the Chief Justice extended the time for filing a petition to and including July 26, 2001. This Court has jurisdiction under 28 U.S.C. § 1254.

CONSTITUTIONAL PROVISION INVOLVED

This case involves the Due Process Clause of the Fifth Amendment to the United States Constitution, which provides that "[n]o person shall . . . be deprived of life, liberty, or property, without due process of law."

STATEMENT OF THE CASE

The United States Court of Appeals for the Federal Circuit in this case imposed a punitive damages award that is an astonishing 38,000 times greater than the amount of compensatory damages that it affirmed. The court held that petitioner Biomet, Inc. ("Biomet" or "petitioner") could not challenge a $20,000,000 punitive damages judgment after compensatory damages had been reduced from $7,134,000 to $520 on remand from an earlier appeal.

Notwithstanding the bedrock principle that claims of error that are contingent on future proceedings are not subsumed within a prior appellate mandate, *Sprague* v. *Ticonic National Bank*, 307 U.S. 161, 168 (1939), the Federal Circuit held that Biomet was obligated to raise in its earlier appeal (at pain of waiver of all future challenges) a hypothetical claim that the punitive damages award *might* be unconstitutional if compensatory damages were sufficiently reduced at some point in the future. It so held even though Biomet at that time had no reasonable basis for challenging the unconstitutionality of the punitive damages verdict as "grossly

excessive" under *BMW of North America, Inc.* v. *Gore*, 517 U.S. 559 (1996). At that time, the ratio of the punitive award to the compensatory award was then less than 3 to 1.

Not only is the decision below in conflict with decisions of this Court and other federal courts of appeals, as well as basic precepts of appellate procedure, but the untoward rule it creates will thwart the orderly development of appellate review of punitive damages awards. The importance of ensuring a fair process for imposing punitive damages is a matter this Court recently emphasized in *Cooper Industries, Inc.* v. *Leatherman Tool Group, Inc.*, 121 S. Ct. 1678 (2001). This Court should grant the petition to resolve the conflict of authority and to ensure that a fair and sensible judicial process is employed by federal courts to determine the constitutionality of punitive damages awards.

A. Factual Background

Biomet manufactures orthopedic medical devices, including reconstructive and fixation devices, and replacement systems for the hip and knee. Biomet has long worked closely with orthopedic surgeons in the development of its products. The topmost part of an artificial hip, which joins with the patient's hip socket, or acetabulum, is called an acetabular cup. Many acetabular cups are hemispherically shaped to match the general shape of the acetabulum.

In the mid-1980's, Biomet worked with two surgeons, Doctors Mallory and Head, to design a finned, hemispherically shaped acetabular cup that offers patients certain medical advantages. Biomet manufactured and marketed the Mallory-Head cup successfully because of the high quality of its products. No patent was ever sought for the Mallory-Head cup because the design was not substantially different from a number of older, similarly shaped cups.

In 1984, respondent Dr. Raymond G. Tronzo ("Tronzo" or "respondent") filed a patent application to an acetabular cup that ultimately issued as U.S. Patent No. 4,681,589 ("the '589

patent"). However, the '589 patent was directed to a finned cup that had a trapezoidal or conical shape, rather than the hemispherical shape of the Mallory-Head cup. It was not until March 1987, more than one year after Biomet had created brochures to market the Mallory-Head cup, that Tronzo filed a patent application in which he sought to cover a finned acetabular cup that could have a hemispherical shape. See *Tronzo* v. *Biomet, Inc.*, 950 F. Supp. 1149, 1150-52 (S.D. Fla. 1996), *aff'd in part, vacated in part, rev'd in part*, 156 F.3d 1154 (Fed. Cir. 1998). That patent ultimately issued in 1988 as U.S. Patent No. 4,743,262 ("the '262 patent").

B. Proceedings In The District Court

On April 25, 1991, Tronzo commenced suit against Biomet, Inc. in the United States District Court for the Southern District of Florida. Tronzo claimed that Biomet's manufacture and sale of the Mallory-Head Cup infringed his '262 patent, and also asserted state law claims of breach of a confidential relationship, fraud and unjust enrichment. Answering a special verdict form that asked whether the jury found damages for each individual claim, the jury found Biomet liable and rendered multimillion-dollar verdicts against Biomet on all claims.

Biomet filed motions for judgment as a matter of law ("JMOL") and a new trial on the patent claim. The district court denied both motions, and upheld the jury's verdict of $3,805,000 in compensatory damages. Because the jury had made a finding of willful infringement of the patent, the court enhanced the damages for patent infringement by 50 percent pursuant to 35 U.S.C. § 284, resulting in a $5,707,500 award for that claim. Pet. App. 37a.

On the state law claims, Biomet filed a motion for JMOL and also moved for a new trial, arguing as one basis that the compensatory and punitive awards were excessive in light of the evidence. The district court granted Biomet's motion for

JMOL, in part, dismissing with prejudice the claim for unjust enrichment, but the court denied Biomet's motion for a new trial. On damages, in order to avoid double recovery on the two remaining state law claims, the district court capped the total award at $7,134,000 in compensatory damages and $20,000,000 in punitive damages (which was the amount the jury awarded on the fraud claim). Consequently, the ratio of punitive damages to compensatory damages on the state law claims stood at 2.8 to 1.

C. Appeal In *Tronzo I*

Biomet appealed the judgment to the United States Court of Appeals for the Federal Circuit. In *Tronzo* v. *Biomet, Inc.*, 156 F.3d 1154 (Fed. Cir. 1998) ("*Tronzo I*"), the Federal Circuit reversed the finding of liability on the patent infringement claim. It held that certain claims in the '262 patent were not supported by the written description of the earlier '589 patent, and were thus invalid as anticipated by intervening prior art, and that certain other claims were not infringed under the doctrine of equivalents. Pet. App. 42a-43a.

On appeal in *Tronzo I*, Biomet vigorously contested the state law verdicts both as to liability and damages. The jury had found that Biomet fraudulently induced Tronzo to obtain patent protection for his implant with the promise of a royalty, and that Biomet had, in breach of its confidential relationship with Tronzo, disclosed to others certain confidential information it had received from Tronzo. Pet. App. 44a. Biomet argued that Tronzo had failed to establish the necessary elements of the state law causes of action, and challenged the amount of compensatory damages because the award was based on an impermissible legal theory.

Biomet had no reasonable basis in *Tronzo I* to raise a constitutional attack on the severity of the punitive damages award. If the evidence supported a judgment that Biomet had committed two independent, unlawful acts (including

intentional fraud) that together resulted in more than $7 million in compensatory damages to the plaintiff, Biomet could not reasonably argue that a 2.8 to 1 ratio of punitive damages was "grossly excessive" under *BMW of North America, Inc.* v. *Gore*, 517 U.S. 559 (1996).

Nonetheless, Biomet repeatedly, in both its initial and reply briefs, argued to the Federal Circuit that because compensatory damages and punitive damages were linked, the punitive damages award must fall if the court vacated the award of compensatory damages on either of the two state law claims. See Biomet Brief at 42 n.9, *Tronzo I*, 156 F.3d 1154 (Fed. Cir. 1998) ("If this Court finds that Biomet defrauded Dr. Tronzo, but that he did not prove damages, he can recover neither the compensatory damages award nor the punitive damages award."); *id.* at 45 n.10 ("Again, if this Court finds that Biomet breached a confidential relationship, but that Dr. Tronzo did not prove damages, he can recover neither the compensatory damages nor the punitive damages award."); Biomet Reply Brief at 23-24 n.16, *Tronzo I*, 156 F.3d 1154 (Fed. Cir. 1998) ("Instead, Biomet argued that the punitive damages awards fall automatically once the related compensatory awards fall. *See* Biomet Br. at 42 n.9, 45 n.10.").

In its decision in *Tronzo I*, the Federal Circuit held that the evidence before the jury was sufficient to sustain liability on the state law claims, but it vacated the award of damages. Pet. App. 44a-45a. Noting "that there must be some nexus between the damages claimed and the injury incurred," *id.* at 44a, the Federal Circuit held that the state-law damages award "d[id] not properly reflect Tronzo's actual injury." *Id.* at 45a. The Federal Circuit "note[d] that upon the record before us there is no evidence to prove any of the costs and injuries incurred by Tronzo, such as the costs of prosecuting the patent and lost business opportunities." *Id.* at 46a. Accordingly, the matter was remanded to the district court "to determine whether such evidence was presented, and if not,

whether in the district court's discretion it would be appropriate to take new evidence in this regard." The court of appeals issued the following mandate in *Tronzo I*:

> We affirm the district court's judgment of liability under the state law claims but vacate and remand for the district court to determine an appropriate award of damages in accordance with this opinion.

Id.

D. Remand Proceedings In The District Court

On remand, Tronzo filed a motion for judgment or new trial on punitive damages, and Biomet filed a motion for relief from judgment. The trial court vacated the judgment on the patent infringement claim, entered final judgment for Biomet on that claim, and lifted the injunction regarding the subject patent.

In an order dated April 26, 1999, the district court reduced the award of compensatory damages from $7.1 million to $520. The only evidence offered by the respondent in support of his claim for compensatory damages was the $520 respondent paid in order to obtain a patent. The district court noted that respondent had not submitted any evidence of lost business opportunities "to pursue relationships with companies *other than Biomet* and *other* means of bringing the acetabular cup to market." Pet. App. 28a. Although the Federal Circuit in its opinion expressly stated that the district court could take new evidence on the issue of damages, the district court "decline[d] to open the record and take new evidence," noting that "[b]oth parties in this case were represented by competent counsel who made strategic decisions throughout the course of protracted litigation and an extended trial. They have had a fair and full opportunity to develop the record, and it should be evaluated as it now stands." *Id.* at 30a. Lastly, the district court tentatively reinstated the original $20 million punitive damages award, but declined to enter final judgment to permit petitioner an

opportunity before that court to challenge the award on constitutional grounds. *Id.* at 31a.

In the wake of these orders, the ratio of punitive damages to compensatory damages had become $20 million to $520, or over 38,000 to 1. Accordingly, petitioner filed a motion to reduce the punitive damages as unconstitutionally excessive. In an August 25, 1999 order, the district court noted that Biomet's challenge could not have been made earlier:

> [T]he due process issue regarding the $20 million punitive award did not come into being until this court entered its order reducing the compensatory damage award to $520. Biomet could not have waived, and this court could not have considered, the excessiveness issue before the compensatory award was reduced."

Pet. App. 19a. The district court then evaluated the punitive damages award according to the guidelines set forth in *BMW*, 517 U.S. at 574-75, namely, the reprehensibility of petitioner's conduct, the relationship between the harm suffered and the punitive award, and a comparison of the punitive award with potential civil and criminal penalties in the instant and comparable cases.

The district court did not find sufficient evidence of reprehensibility in the record to warrant such a large punitive damages award. Pet. App. 22a.[1] As to the ratio of compensatory damages to punitive damages, the district court noted, "[a]lthough there is no bright line test establishing a proper ratio, without question the $20 million punitive award in this case does not bear a reasonable relationship to the $520 compensatory award and, therefore, it must be reduced." *Id.* Lastly, the district court examined civil punishments for violation of various state deceptive trade statutes, noting that the maximum authorized fines ranged from a fixed maximum

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[1] The district court held, for example, that the evidence "does not show, as plaintiff claims, that the patients were put at risk." Pet. App. 22a.

of $10,000 to triple the amount of compensatory damages. *Id.* at 22a-23a. Accordingly, the district court determined that the $20 million punitive damages award violated due process. In deciding what amount the punitive award should be, the district court said:

> In this case, the amount of compensatory damages does not adequately reflect the actual harm caused. Thus, a ratio greater than the [sic] Florida's typical 3 to 1 is appropriate. Upon consideration of the purposes of punitive damages, the substantial means of Biomet, and the three guideposts [discussed in *BMW*], giving the greatest weight to the reprehensibility of [petitioner's] conduct, the court concludes that the maximum amount of punitive damages the Constitution will permit in this case is $52,000, an amount equaling a ratio of 100 to 1.

Id. at 24a.

E. Appeal In *Tronzo II*

Respondent appealed to the Federal Circuit. On appeal, the court of appeals held that Biomet had waived its right to judicial consideration of the constitutionality of the size of the punitive damages award by failing to attack the amount of punitive damages in its initial appeal. Pet. App. 9a. Disregarding the broad language of its actual mandate, in which it vacated "damages" generally, see *supra* pp. 6-7, the Federal Circuit characterized its mandate as relating solely to compensatory damages. Indeed, the Federal Circuit pointed to language in *Tronzo I* discussing the absence of evidence in the record proving compensatory damages, see *supra* p. 6, and recast that language as the mandate, stating that in *Tronzo I* it had "remanded to the district court . . . to 'prove any of the costs and injuries incurred by [Dr.] Tronzo, such as the costs of prosecuting the patent and lost business opportunities,'" and to take new evidence on that issue in its discretion if no such evidence existed. *Id.* at 3a (alteration in original).

The Federal Circuit then held that the mandate rule precluded any consideration of any issue relating to the punitive damages award following its decision in *Tronzo I*. Rejecting Biomet's argument that its constitutional challenge to the punitive award had not become ripe until the compensatory award became fixed on remand, the Federal Circuit noted that a punitive damages award was part of the initial judgment and that the district court had addressed punitive damages in ruling on Biomet's post-trial motions. Pet. App. 11a. The court of appeals acknowledged that Biomet had never previously challenged the punitive award on *constitutional* grounds, but it held that Biomet "could have done so." *Id.* According to the Federal Circuit, a defendant must raise a hypothetical challenge on appeal: namely, a claim on appeal "that, *if* the compensatory damages award is lowered, constitutional requirements mandate that the punitive award be commensurately adjusted." *Id.* at 12a (emphasis added). By not raising the issue when the ratio of punitive damages was 2.8 to 1, and instead waiting until the ratio had become 38,000 to 1 on remand, "Biomet's belated attack on the punitive damages award was foreclosed by our mandate in *Tronzo I*." *Id.*

Recognizing that the mandate rule and the law-of-the-case doctrine do not absolutely bar the reconsideration of an issue, the Federal Circuit conceded that "it may be appropriate in some circumstances for a court to revisit an issue that would otherwise be deemed waived and beyond the scope of an appellate mandate. Such circumstances, however, must be exceptional." Pet. App. 12a. The only basis for an exception to the mandate rule that the court recognized, however, was whether "there has been a substantial change in the evidence." *Id.* at 13a.

The Federal Circuit declared that a reduction of compensatory damages from $7.1 million to $520 was not sufficiently substantial, and it did so on the basis of a truncated analysis of this Court's *BMW* decision: "True,

38,000 to 1 is a high ratio, and such a particularly high ratio will certainly 'raise a suspicious judicial eyebrow.' But the constitutionality of a punitive damages award is not simply a matter of numbers or ratios." Pet. App. 13a (citations omitted). The Federal Circuit never challenged the district court's conclusion that the only record evidence of compensatory damages was the $520 Tronzo paid to obtain a patent. Nonetheless, based on the district court's statement that the absence of record evidence on compensatory damages was due to the "'strategic decisions'" of Tronzo's counsel, the Federal Circuit concluded that "competent evidence of damages may have existed, but was never introduced." *Id.* at 14a. Because the ratio prong of *BMW* is the ratio of the punitive damages award to "actual and potential damages," 517 U.S. at 582 (emphasis in original omitted), the Federal Circuit proceeded to speculate that "there is a strong suggestion in the record that the potential compensatory damages *may have been* much higher than what was actually awarded." Pet. App. 14a (emphasis added). Therefore, based on its conjecture that there may have been evidence that was not in the record that would justify the 38,000 to 1 ratio, but which Tronzo *intentionally* refrained from introducing, the Federal Circuit reinstated the $20 million punitive damages award as permissible in light of the "exceptional circumstances" standard of review it applied. *Id.* at 15a.

REASON FOR GRANTING THE PETITION

The Federal Circuit's interpretation of the appellate mandate rule is squarely in conflict with the precedent of this Court and other courts of appeals. In *Sprague* v. *Ticonic National Bank*, 307 U.S. 161, 167-68 (1939), this Court, while declaring "indisputable" "the general proposition" that a district court is "bound to carry the mandate of the upper court into execution and [cannot] consider the questions which the mandate laid to rest," held that claims that are

contingent on a "final disposition" of proceedings on remand are not subject to the mandate rule. *Id.* at 168.

In *Sprague*, the district court had entered a decree discharging a lien against bonds held by the estate of a bankrupt bank, and the court of appeals affirmed the decree "'with costs'" and interest. *Id.* at 163. This Court granted certiorari solely to decide the question of the award of interest. *Id.* On remand, the district court rejected the plaintiff's bill for "equitable costs"—attorney's fees and litigation expenses, *id.*—as beyond the mandate of the Supreme Court, and the court of appeals affirmed. *Id.* at 164. On petition to this Court, the decisions of the lower courts were reversed. The Court ruled that the determination of costs was not precluded by the mandate rule because such costs "are contingent upon the exigencies of equitable litigation, the final disposition of which in its entire process including appeal places such a claim in much better perspective than it would have at an earlier stage." *Id.* at 168.

A punitive damages award, and the analysis of its constitutionality, is necessarily contingent upon the corresponding compensatory award, and thus also upon any retrial or redetermination of compensatory damages on remand. The Federal Circuit's analysis of punitive damages awards is contrary to precedents in this Court and the courts of appeals, and its holding that defendants must raise hypothetical "gross excessiveness" claims in the initial appeal clearly contradicts this Court's holding in *Sprague*, which carves such contingent matters out of the scope of the mandate. It also violates this Court's repeated admonition against judicial determination of hypothetical constitutional questions, creates needless disarray in the briefing of constitutional challenges under *BMW*, and frustrates the appellate review that this Court in *Cooper Industries, Inc.* v. *Leatherman Tool Group, Inc.*, 121 S. Ct. 1678 (2001), declared to be vital to the fair administration of punitive damages awards.

A. *Tronzo II* Conflicts With Courts Of Appeals Decisions Holding That An Award Of Punitive Damages Is Necessarily Contingent On A Final Determination Of Compensatory Damages.

The Federal Circuit held in *Tronzo II* that the excessiveness of an award of punitive damages that is not directly challenged on the first appeal is immune from reconsideration even when an award of compensatory damages is vacated and readjusted on remand. This holding is in direct conflict with the holdings of other courts of appeals. In *Tronzo I*, the Federal Circuit had instructed the district court on remand either to determine the amount of compensatory damages sustainable on the current record, or, in its discretion, "to take new evidence in this regard." Pet. App. 46a. The district court thus had the discretion to order a new jury trial on damages because, under the Seventh Amendment, the jury alone could award compensatory damages based on new evidence. See *Hetzel* v. *Prince William County, Va.*, 523 U.S. 208, 211 (1998). As a matter of law, moreover, the *Tronzo I* court could not have remanded for a possible partial new trial on compensatory damages alone "unless it clearly appear[ed] that the issue to be retried is so distinct and separable from the others that a new trial of it alone may be had without injustice." *Gasoline Prods. Co.* v. *Champlin Ref. Co.*, 283 U.S. 494, 500 (1931).

In viewing the punitive damages award as distinct and separable from the compensatory damages award, and precluding any further consideration of the punitive award even in the face of a significant lowering of the compensatory award, *Tronzo II* creates a conflict with decisions of other courts of appeals holding that the appropriateness of a punitive damages award is necessarily tied to the compensatory damages award.

In *Mason* v. *Texaco, Inc.*, 948 F.2d 1546 (10th Cir. 1991), the plaintiff brought a product liability claim against the defendant, seeking damages for personal injury and wrongful

death. After trial, the jury found for the plaintiff, but declined to award any punitive damages. The defendant appealed the judgment, arguing that the jury had received erroneous instructions, but the plaintiff did not appeal the trial court's decision not to grant a new trial on punitive damages. The Tenth Circuit reversed and remanded. On retrial, the jury again found for the plaintiff, this time awarding punitive damages. The defendant argued that by not appealing the initial denial of punitive damages, the plaintiff had waived the issue and the mandate rule barred any revisitation of that point. The Tenth Circuit disagreed. Contrary to the Federal Circuit's ruling in *Tronzo II*, the Tenth Circuit recognized the interrelation between compensatory and punitive awards, and held that "[a] punitive damage claim is not an independent cause of action or issue separate from the balance of a plaintiff's case." *Id.* at 1554. Thus, in *Mason* the Tenth Circuit squarely rejected the argument that the failure to challenge a prior ruling on punitive damages in the first appeal forecloses redetermination of punitive damages on remand.

Similarly, in *Burke* v. *Deere & Co.*, 6 F.3d 497 (8th Cir. 1993), the Eighth Circuit ruled that it was improper to separate punitive and compensatory damages, and to grant a remand for retrial limited to the former. Relying on this Court's precedents in *Pacific Mutual Life Insurance Co.* v. *Haslip*, 499 U.S. 1 (1990), and *TXO Production Corp.* v. *Alliance Resources Corp.*, 509 U.S. 443 (1993), the Eighth Circuit held that "the issues underlying compensatory and punitive damages awards are inextricably intertwined." *Burke*, 6 F.3d at 513.

The Fifth Circuit has also repeatedly held that a punitive damages award is not independent of a final determination of compensatory damages. In *Brown* v. *Kinney Shoe Corp.*, 237 F.3d 556 (5th Cir. 2001), the court vacated an award of punitive damages in remanding for a redetermination of compensatory damages on the basis of the lone viable legal

claim. The court held that "[a] new determination of the compensatory injuries that flow from the claim may fundamentally affect a jury's determination of emotional and punitive damages. Thus, all damages must be reconsidered." *Id.* at 567 (citation omitted). And in *Hardin* v. *Caterpillar, Inc.*, 227 F.3d 268, 272-73 (5th Cir. 2000), after finding error in an award of punitive damages, the Fifth Circuit gave the plaintiff a choice: she could keep the jury award she received and forgo any punitive damages, or she could have a retrial of the whole case, assuming the risk that at the second trial the jury may not find the defendant liable. Noting that "[m]any legal systems reflect this linkage of actual and punitive damages in locating caps for punitive awards," the court went on to say, "We are persuaded of the practical inseparability of the issues of intent, of damages for emotional injury, and of punitive damages . . . ." *Id.* at 272. Finally, in *Allison* v. *Citgo Petroleum Corp.*, 151 F.3d 402 (5th Cir. 1998), the Fifth Circuit upheld the denial of a class certification order in part because of the inseparability of determinations of compensatory and punitive damages awards. Citing *BMW*, the court held that "because punitive damages must be reasonably related . . . to the compensatory damages awarded to the plaintiffs, recovery of punitive damages must necessarily turn on the recovery of compensatory damages." *Id.* at 417-18 (citations omitted).

This Court's recent decision in *Cooper* confirms that, contrary to the Federal Circuit's approach, punitive damages awards are necessarily contingent upon compensatory awards. Underscoring the close relationship between punitive and compensatory damages, this Court noted that "compensatory damages and punitive damages are typically awarded at the same time by the same decisionmaker," although for different purposes. 121 S. Ct. at 1683. But the Court drew an important distinction between the two kinds of damages: "[u]nlike the measure of actual damages suffered, which presents a question of historical or predictive fact, the level of

punitive damages is not really a fact tried by the jury." *Id.* at 1686 (citation and internal quotation marks omitted). Thus, punitive damages cannot be treated simply as a finding of fact that should be considered a fixed part of the judgment if not challenged on the first appeal, as the Federal Circuit did here. Rather, punitive damages are "an expression of [the jury's] moral condemnation" of the defendant based on the jury's findings of fact. *Id.* at 1683, 1686 n.11. If some of the factual findings relevant to punitive damages are upset on appeal—such as the amount of legally cognizable harm that the plaintiff suffered—the punitive damages calculus necessarily changes. The jury here made its awards of punitive and compensatory damages in a ratio of 2.8 to 1. Neither the jury nor the district court in reducing the award determined that Biomet deserved a punishment 38,000 times that of the injury to Tronzo.

Thus, the *Tronzo II* decision is contrary to this Court's analysis in *Cooper* and the decisions of other courts of appeals recognizing that punitive awards are not independent of compensatory awards. It is all the more important for this Court to resolve this mature conflict among the circuits in this case, given the Federal Circuit's exclusive national jurisdiction in patent cases, see 28 U.S.C. § 1295(a)(1). The conflict between *Tronzo II* and the decisions of the Tenth, Eighth, and Fifth Circuits will sow confusion among the district courts of those circuits in resolving claims that legal error tainting a compensatory damages award also requires a redetermination of punitive damages.

The error of the *Tronzo II* rule is further evident when compared to the decisions on the appellate mandate rule in the analogous context of criminal sentencing. Cf. *Pacific Mut.*, 499 U.S. at 19 (punitive damages are "quasi-criminal" and equivalent to private fines levied to punish wrongdoing and deter similar wrongs in the future); *id.* at 54 (O'Connor, J., dissenting); *Cooper*, 121 S. Ct. at 1683 (noting comparability of rules applicable to criminal sentencing and punitive

damages). The general rule in criminal punishment is that, if a court of appeals vacates a sentence because of a specific error, the appellate mandate does not foreclose reconsideration of the sentence as a whole. See *United States* v. *Moored*, 38 F.3d 1419, 1423 (6th Cir. 1994); *United States* v. *Sanchez Solis*, 882 F.2d 693, 699 (2d Cir. 1989). Thus, in *Moored*, the Sixth Circuit vacated a sentence in part because it was based on an impermissible finding of loss that was caused by the criminal fraud. Although there was no remand to reconsider the loss issue, the district court on remand resentenced the defendant using a new basis for computing loss. On the second appeal, the Sixth Circuit rejected a claim that the district court had exceeded the scope of the appellate mandate, holding that "this court's interest in truth, justice and fair sentencing, requires that the district court's decision to reopen the loss issue be upheld." 38 F.3d at 1423; see also *United States* v. *Smith*, 116 F.3d 857, 859 (10th Cir. 1997) (no violation of the appellate mandate rule where the district court included a sentencing enhancement that had not been available prior to the vacation of the firearm conviction on the first appeal). The social interest in just punishment and the defendant's due process rights require that a punishment be final only when the predicates for punishment are fixed and settled. The same principle applies in the context of punitive awards in civil cases, and highlights the injustice to Biomet caused by the *Tronzo II* ruling.

In summary, punitive damages are contingent upon the final determination of compensatory damages, and thus as a matter of law cannot be within the scope of an appellate mandate remanding for a redetermination of compensatory damages. *Tronzo II*'s holding that punitive damages may be finally determined before compensatory damages are fixed is contrary to *Cooper* and the decisions of other courts of appeals, and its holding that the mandate rule forbids a district court from reconsidering punitive damages after compensatory damages have been altered on remand conflicts with

the rule of *Sprague*, which exempts issues contingent on further proceedings from the mandate rule.

B. The Constitutionality Of An Award Of Punitive Damages Is Necessarily Contingent Upon The Amount Of Compensatory Damages.

Just as an award of punitive damages is always contingent on the award of compensatory damages, this Court's decisions in *BMW* and *Cooper* make clear that the constitutionality of an award of punitive damages cannot be determined absent an analysis of the relationship between the punitive award and the compensatory award. In *BMW*, this Court established three guideposts to determine whether a punitive damages award violates constitutional principles of fairness: the degree of reprehensibility of the conduct, the disparity between the punitive award and the compensatory award, and the difference between the punitive damages and civil penalties available in comparable cases. *BMW of N. Am., Inc.* v. *Gore*, 517 U.S. 559, 574-75 (1996). Contrary to the Federal Circuit's analysis, see *supra* pp. 10-11, none of the guideposts is intended to be examined in isolation from the other two; each factor is to be taken into consideration and weighed against the others. In particular, when discussing the ratio guidepost, this Court emphasized that the constitutionality of a particular ratio depends on the reprehensibility of the conduct and the nature of the injury:

> [L]ow awards of compensatory damages may properly support a higher ratio than high compensatory awards, if, for example, a particularly egregious act has resulted in only a small amount of economic damages. A higher ratio may also be justified in cases in which the injury is hard to detect or the monetary value of noneconomic harm might have been difficult to determine.

BMW, 517 U.S. at 582. Whether a punitive award is acceptable necessarily depends on the nature and amount of the compensatory award.

Explicitly rejecting a mathematical formula or a bright-line test, this Court in *BMW* emphasized that the proper analysis is one that looks at the reasonableness of the relationship between the compensatory and punitive awards. *Id.* at 582-83. It follows that an analysis of the reasonableness of the relationship between the compensatory and punitive awards cannot be completed until the compensatory award has been fixed. Certainly the reasonableness of a $20 million punitive award is necessarily different when the compensatory award is $7 million, as opposed to when it is $520.

Given that "the relevant constitutional line" that distinguishes constitutional punitive awards from unconstitutional punitive awards is "'inherently imprecise,'" *Cooper*, 121 S. Ct. at 1684 (citing *United States* v. *Bajakajian*, 524 U.S. 321, 336 (1998)), and that there are three separate yet interdependent guideposts to determine the constitutionality of the award, the constitutional analysis shifts any time one of the predicate factors is altered materially. This Court underscored that very point in its recent decision in *Cooper* when it emphasized that the concept of gross excessiveness is a "'fluid concept[] that take[s] [its] substantive content from the particular contexts in which the standards are being assessed.'" *Id.* at 1685.

Thus, the existence of a constitutional violation is not black or white, and the question in *Tronzo*-type situations is not whether a defendant could have raised a constitutional claim in the first appeal. Because the existence of a constitutional violation is one of degree, the issue is whether there has been a change in one of the underlying predicates for determining the excessiveness of the award that changes the nature and viability of the constitutional claim. Any constitutional claim that respondent could have raised in *Tronzo I*, when the ratio stood at 2.8 to 1, is fundamentally different from the claim that arose after the district court acted on remand, when the ratio had become over 38,000 to 1. All other things being equal, such a radical change in the ratio of the awards

necessarily gives rise to a new and distinct reasonableness inquiry.

The Federal Circuit did not dispute that the constitutionality of a punitive damages award is in part a function of its ratio to the harm to the plaintiff, but ruled instead that a defendant must on pain of waiver raise a contingent and hypothetical constitutional claim in the first appeal: namely, "that, *if* the compensatory damages award is lowered, constitutional requirements mandate that the punitive award be commensurately adjusted." Pet. App. 12a (emphasis added). The Federal Circuit further held that it is not enough for the defendant to argue that the punitive damages award must fall if the compensatory award is vacated, for Biomet did so in both its initial and reply briefs. See *supra* p. 6. Rather, according to the Federal Circuit, the defendant must affirmatively argue (and the court of appeals presumably entertain) that the punitive damages award is unconstitutional if one or another scenario regarding liability or compensatory damages materializes.

Not only is the *Tronzo II* rule that a litigant must raise for appellate consideration a contingent constitutional claim contrary to *Sprague*, but it violates the fundamental precept that courts should decline

> "'to decide abstract, hypothetical or contingent questions . . . or to decide any constitutional question in advance of the necessity for its decision . . . or to formulate a rule of constitutional law broader than is required by the precise facts to which it is to be applied . . . or to decide any constitutional question except with reference to the particular facts to which it is to be applied . . . .'"

Clinton v. *Jones*, 520 U.S. 681, 690 n.11 (1997) (omissions in original) (quoting *Alabama State Fed. of Labor* v. *McAdory*, 325 U.S. 450, 461 (1945)). Any attempt by a court of appeals to decide due process violations on the basis of hypothetical and undeveloped arguments and indeterminate facts would be

directly contrary to the mission that this Court set for the courts of appeals in *Cooper*: namely, to "maintain control of, and clarify, the legal principles" governing determinations of "gross excessiveness." *Cooper*, 121 S. Ct. at 1685 (internal quotation marks omitted).

The Federal Circuit's decision in *Tronzo II* places parties and their lawyers in wholly untenable positions, and sows confusion in the appellate briefing of the critical issue of the constitutionality of punitive damages awards. In this particular case, there was no way Biomet could have predicted how the court of appeals was going to decide the issues of liability or compensatory damages, nor how the district court would handle such issues, if and only if the appellate court remanded the case. If *Tronzo II* were indeed the rule, Biomet's brief in the first appeal would have been a series of hypothetical arguments about whether the punitive damages award would be grossly excessive (a) if both fraud and breach-of-confidential-relationship liability were upheld; (b) if only fraud were upheld; (c) if only breach-of-confidential-relationship liability were upheld; (d) if only certain contested theories of breach of confidential relationship or fraud were sustainable on the evidence; (e) in light of the comparable legislative sanctions for each of those possibilities of liability; and (f) in comparison to any number of possible compensatory awards for each of those possible theories of liability. See *Cooper*, 121 S. Ct. at 1682 (noting that appellate reversal of the determination that defendant violated trademark laws should be considered in determining the gross excessiveness of the award). In addition, merely mentioning the possibility that compensatory damages *might*, under one of a number of possible scenarios, later be reduced, which in turn *might* create a constitutional issue with respect to the punitive award, would have served no purpose. Such a statement would have been of no value, to either parties or the court of appeals, since the court could not have taken any action based on the statement.

There is neither sense nor economy in a rule of law that insists that a party must waste scarce pages of an appellate brief on issues that a court of appeals cannot decide. This is especially so in a complex and technical case like this one, where there were multiple challenges to liability and damages involving multiple causes of action. It simply cannot be seriously argued that the court of appeals in *Tronzo I* would have entertained any excessiveness challenge in light of the doctrine of avoidance of unnecessary or hypothetical constitutional issues, the prohibition against judicial fact finding in jury cases (U.S. Const. amend. VII), and the absence of a sufficient command of the record to make a determination of sustainable compensatory damages without a remand to the district court.

Furthermore, a judicially created rule that a failure to challenge "the amount" of punitive damages in the first appeal forecloses a later challenge to the award, Pet. App. 9a (emphasis in original omitted), is constitutionally suspect because it deprives the defendant of state-law and constitutional defenses that do not even arise until remand. For example, the current law in Florida, as in many states,[2] places a cap on punitive damages at a particular ratio to compensatory damages (*e.g.*, 3 to 1). No such defense would have existed in this case (or in many others) unless and until the compensatory damages were adjusted on remand; it cannot be the rule that a defendant must make the hollow

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[2] *See, e.g.*, Fla. Stat. § 768.73(1)(a); Ala. Code § 6-11-21; Alaska Stat. § 09.17.020; Colo. Rev. Stat. Ann. § 13-21-102(1)(a), (3); Conn. Gen. Stat. Ann. § 52-240b; Ga. Code Ann. § 51-12-5.1; 735 Ill. Comp. Stat. Ann. 5/2-1115.05(a); Ind. Code Ann. § 34-51-3-4; Kan. Stat. Ann. § 60-3701(e), (f); Nev. Rev. Stat. § 42.005(1)(a), (b); N.J. Stat. Ann. § 2A:15-5.14(b); N.C. Gen. Stat. § 1D-25; N.D. Cent. Code § 32-03.2-11(4); Ohio Rev. Code Ann. § 2315.21; Okla. Stat. Ann. tit. 23, § 9.1(B)-(D); Tex. Civ. Prac. & Rem. Code Ann. § 41.008; Va. Code Ann. § 8.01-38.1; Wash. Rev. Code § 19.86.090 (limiting punitive damages in consumer protection actions).

gesture of drawing to the attention of the court of appeals a state law defense that does not yet apply, lest defendant's failure to challenge the amount of punitive damages on the first appeal robs him of the right to raise that defense altogether in later proceedings.

Similarly, many states that do not have fixed caps still require the excessiveness of punitive damages to be determined in light of their relationship to compensatory damages.[3] The application of state law excessiveness standards is committed to the district court's discretion under Federal Rule of Civil Procedure 59. *Cooper*, 121 S. Ct. at 1683-84; *Browning-Ferris Indus. of Vt., Inc.* v. *Kelco Disposal, Inc.*, 492 U.S. 257, 279 (1989). That defense too

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[3] *See, e.g., Morse* v. *Southern Union Co.*, 174 F.3d 917, 925 (8th Cir.) (applying Missouri law), *cert. dismissed*, 527 U.S. 1059 (1999); *Neibel* v. *Trans World Assurance Co.*, 108 F.3d 1123, 1132 (9th Cir. 1997) (applying California Law); *Smith* v. *Ingersoll-Rand Co.*, 214 F.3d 1235, 1254 (10th Cir. 2000); *Walston* v. *Monumental Life Ins. Co.*, 923 P.2d 456, 468 (Idaho 1996); *Schaffer* v. *Edward D. Jones & Co.*, 552 N.W.2d 801, 810 (S.D. 1996); *Gray* v. *Allen*, 41 S.W.3d 330, 332 (Tex. App. 2001) (in addition to a statutory limit on punitive damages, holding that "[e]xemplary damages must be reasonably proportioned to actual damages"); *Tyson Foods, Inc.* v. *Stevens*, 783 So.2d 804, 809 (Ala. 2000) (in addition to statutory requirements limiting punitive damages, "the ratio between compensatory and punitive damages must be reasonable"); *Hundley ex rel. Hundley* v. *Rite Aid of S.C., Inc.*, 529 S.E.2d 45, 62 (S.C. Ct. App. 2000) ("Punitive damages must bear a 'reasonable relationship' to compensatory damages."); *Bowden* v. *Caldor, Inc.*, 710 A.2d 267, 284 (Md. 1998) ("[w]hether a punitive damages award bears a reasonable relationship to the compensatory damages awarded . . . . should be a consideration when a court reviews an award of punitive damages for excessiveness"); *Vandevender* v. *Sheetz, Inc.*, 490 S.E.2d 678, 685 (W. Va. 1997) ("As a matter of *fundamental fairness*, punitive damages should bear a reasonable relationship to compensatory damages.") (emphasis added); *Parkin* v. *Cornell Univ., Inc.*, 581 N.Y.S.2d 914, 916 (N.Y. App. Div. 1992) ("it is imperative" that a punitive damages award "bear a reasonable relationship to defendant's culpability").

cannot be decided until remand, and yet would be foreclosed by the wooden rule of *Tronzo II*.

Finally, the constitutional defense that a 38,000 to 1 ratio is "grossly excessive" in light of Biomet's conduct and in comparison to comparable legislation did not arise until remand. Yet no relief is available under *Tronzo II*, despite the principle that the federal courts are presumptively available to cure a constitutional violation. See *Bowen* v. *Michigan Acad. of Family Physicians*, 476 U.S. 667, 681 (1986).

In addition to holding that appellants must raise hypothetical issues in order to preserve them, the Federal Circuit also erred by adopting a truncated standard for finding whether there should be an exception to the mandate rule. In analyzing only the significance of the change in the evidence, see *supra* p. 10, the court of appeals ignored the most critical exception to the mandate rule and related prudential doctrines: namely, the need to prevent "manifest injustice." *Arizona* v. *California*, 460 U.S. 605, 618 & n.8 (1983); *Crocker* v. *Piedmont Aviation, Inc.*, 49 F.3d 735, 739-40 (D.C. Cir. 1995). The Federal Circuit's error is particularly grave in the context of denying adjudication of a *BMW* defense, the very purpose of which is to ensure *substantive* justice: "Elementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment, but also of the severity of the penalty that a State may impose." *BMW*, 517 U.S. at 574. Biomet certainly had no notice that evidence of state law violations causing minimal harm to Tronzo would nonetheless justify a $20 million punishment that was 38,000 times the amount of that harm. This Court described the 500 to 1 ratio of punitive damages to compensatory damages in *BMW* as "breathtaking." *Id.* at 583. Even without a fixed, bright-line rule, a ratio of 38,000 to 1 is certainly well beyond breathtaking, and requires (at an absolute minimum) a court to consider Biomet's constitutional challenge.

The Federal Circuit compounded its error by announcing rules for the application of the *BMW* guideposts that are in conflict with the teachings of this Court and precedents in other circuits. First, the Federal Circuit correctly recognized that in considering the ratio guidepost, a court may in some circumstances take into account potential harm to the plaintiff. Pet. App. 14a; see *BMW*, 517 U.S. at 575; see also *Cooper*, 121 S. Ct. at 1687. But the Federal Circuit took the extraordinary step of declaring that the gross excessiveness of punitive damages may be determined solely on the basis of speculation about potential harm *even when the plaintiff chose not to introduce any such evidence into the record*. Pet. App. 14a (conjecturing that "competent evidence of damages may have existed, but was never introduced"). That holding is without precedent. In *TXO Production Corp.* v. *Alliance Resources Corp.*, 509 U.S. 443 (1993), every Justice to address the issue agreed that at a minimum there must be "record evidence" of potential harm in order for that factor to count in the constitutional analysis. *Id.* at 461 (plurality) (stating that jury had evidence of "multimillion dollar" harm to victims of the scheme); *id.* at 468 (Kennedy, J., concurring in part and concurring in the judgment in part) (rejecting plurality's analysis because "the record in this case does not contain evidence, argument, or instructions regarding the potential harm"); *id.* at 485 (O'Connor, J., dissenting) (noting that "the estimate of potential loss that respondents proffer today appears nowhere in the record"); *accord Continental Trend Res., Inc.* v. *OXY USA, Inc.*, 101 F.3d 634, 640 (10th Cir. 1996) (analyzing ratio based on record evidence of actual and potential harm); *State* v. *WWJ Corp.*, 980 P.2d 1257, 1263 (Wash. 1999) (en banc) (same).

Second, the court of appeals suggested that Biomet would be unlikely to invoke the "reprehensibility of conduct" guidepost simply because it "never challenged on appeal the jury's finding of wanton or willful conduct in support of the punitive damages liability." Pet. App. 14a. But *BMW*

defined this guidepost as "*the degree* of reprehensibility of the defendant's conduct," and made clear that simply passing the minimum threshold for punitive damages does not end the inquiry regarding reprehensibility of conduct. 517 U.S. at 575 (emphasis added). This Court drew distinctions between economic and personal injury; between intentional, reckless and negligent conduct; between one-time and recidivist conduct; and between conduct that is directed at vulnerable victims and that which is not. *Id.* at 575-78. It directly rejected the claim that all acts causing economic harm "are sufficiently reprehensible to justify a significant sanction in addition to compensatory damages." *Id.* at 576. The Federal Circuit's wooden analysis is at odds not only with *BMW* but also with the approach of other appellate courts, which properly measure the degree of reprehensibility in determining the proper punishment. See, *e.g.*, *FDIC* v. *Hamilton*, 122 F.3d 854, 862 (10th Cir. 1997) (ratio of punitive to actual damages must be "modest" when only economic injury at issue); *Lance, Inc.* v. *Ramanauskas*, 731 So. 2d 1204, 1219 (Ala. 1999) (reducing punitive damages where conduct was "reprehensible" but not "egregious").

The Federal Circuit's bizarre conception of the appellate mandate rule and of the *BMW* guideposts cannot be countenanced. The negative effect of the decision below on orderly appellate procedure is painfully clear. *Tronzo II* creates an unwarranted trap for the appellate lawyer, and also creates significant risks for any defendant that even attempts to make hypothetical arguments regarding the constitutionality of an award. Such a defendant runs the risk either (1) of failing to anticipate the basis of the appellate decision in its hypothetical arguments, and thus confronting waiver claims on remand; or (2) of the appellate court deciding the constitutional question prior to the remand, thus depriving the defendant of the more favorable posture of raising the claim when (as here) compensatory damages are much smaller and the constitutional violation starker.

Not only is the decision below contrary to precedent and any reasonable conception of the appellate mandate rule, but also it is the most bitter of ironies that the Federal Circuit has unjustly applied a procedural rule to Biomet's detriment while rewarding respondent for his clear procedural default of failing to prove proper compensatory damages at trial. If *Tronzo II* stands, respondent will walk away with $20 million that the jury had awarded (and the district court in its post-trial decision had allowed) based on the legally improper theory of damages that respondent knowingly pursued.

Because the constitutionality of a punitive damages award is necessarily contingent on a final determination on remand of compensatory damages, it can never be decided by implication of a judgment vacating a compensatory damages award. The contrary rule of the Federal Circuit creates disarray in the appellate briefing of this critical constitutional issue. Either a party must wastefully and at the expense of meaningful argument devote pages of the brief to issues that the court of appeals will not decide, or worse yet the court of appeals will render decisions on hypothetical constitutional claims. It is manifestly important and urgent for this Court to settle the proper scope of the mandate rule in this case. Because the Federal Circuit exercises an exclusive national jurisdiction in patent cases, its mandates run to every district court in the country. Given the varying conceptions of the mandate rule in the circuits (as was acknowledged by the court below, see Pet. App. 9a, n.1), there is a high likelihood of confusion regarding Federal Circuit mandates in district courts that cannot reasonably anticipate the application of the unfamiliar and counterintuitive rule adopted below. In light of the great importance of appellate review of excessive punitive damages awards that this Court emphasized in *Cooper*, the Court should act now to resolve the conflicts of authority outlined above and stem the disorder that *Tronzo II* invites.

CONCLUSION

For the foregoing reasons, this Court should grant the petition.

Respectfully submitted,

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July 26, 2001

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